

# **Economic Impacts of the Terrorists' Attacks on America**

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The impacts of the September 11, 2001 terrorists' attacks on America are still being calculated. More than a month after this terrible day, government officials can offer only estimates of how many people were killed or injured. Precise property loss figures do not exist. And only now are we beginning to see the first estimates of the attacks' impacts on the overall economy. This article reviews DRI\*WEFA's initial assessment of the attacks on the U.S. economy and analyzes its impact on Idaho's economy.

## **Methodology**

To estimate the impacts of the terrorists' attacks on the U.S. and Idaho economies, the changes since the July 2001 forecast that were due solely to the attacks on America should be isolated. Even before the attacks occurred, the U.S. economy was clearly slowing. The October 2001 forecast would have been lower even if the attacks had not taken place. Clearly, not accounting for this summer's slowing would overstate the impacts of the attacks.

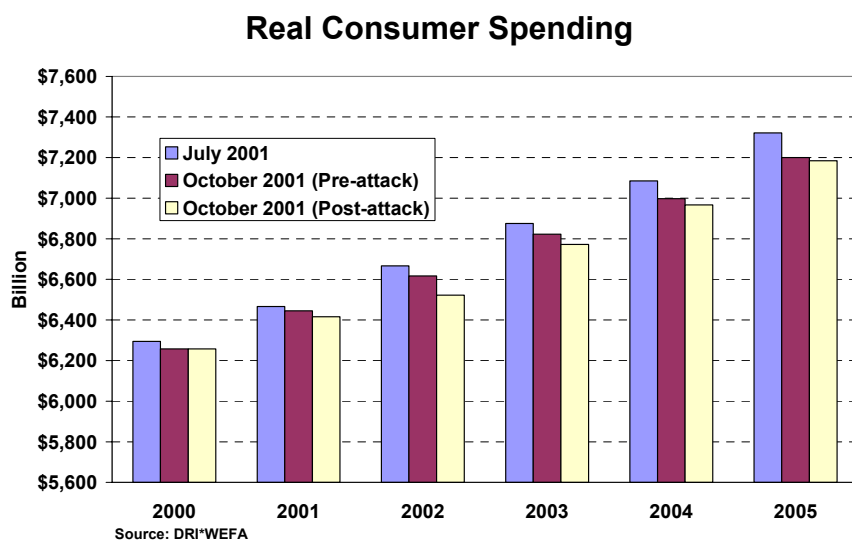
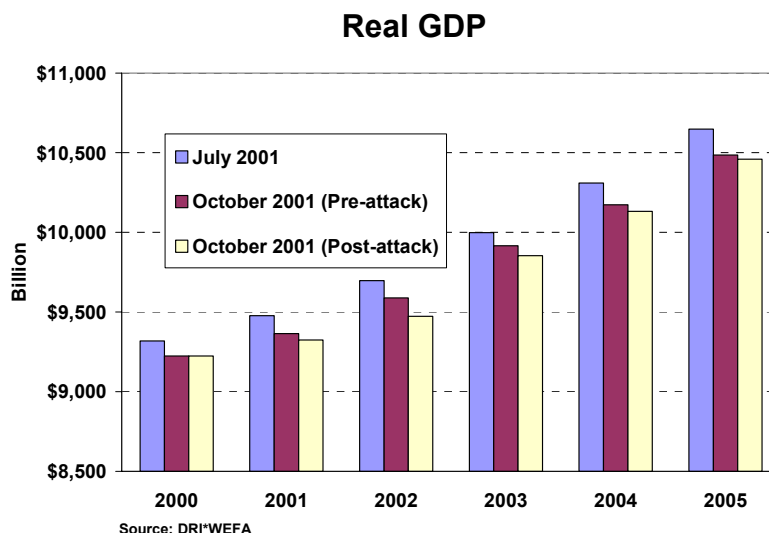
Of course, it is impossible to find a single variable that will summarize these impacts. On the other hand, time, space, and availability prevent preparation of an exhaustive list of changes to the forecast. Instead, focusing on a few national and local factors achieves a reasonable balance between the accuracy and scope of this study.

In order to assess the impact of the attacks on the U.S. and Idaho economy accurately, we used a multi-stage approach. DRI\*WEFA prepared both post-attack and pre-attack U.S. economic forecasts in September 2001. A full Idaho economic forecast based on DRI\*WEFA's post-attack forecast was used as the baseline reported in the October 2001 *Idaho Economic Forecast*. The forecasted changes from the July 2001 publication included the impacts of the attacks and the economic slowing that took place this summer. Another forecast was run based on the pre-attack national forecast and included changes due to the economic slowing. The differences between the two forecasts reveal the damage caused by the attacks.

## **National Economic Impacts**

The most significant change between the July 2001 and the October 2001 forecasts is that the October forecast includes a recession while the July forecast assumed the economy would skirt it. While the attacks may have been the events that sent the U.S. economy into a recession, they do not shoulder all of the blame. The U.S. economy was already on the brink of a recession when the attacks pushed it over the edge. Interestingly, neither the economic slowing nor the attacks alone would have caused a recession. It is the combination of the two that causes the downturn. In fact, the data suggest most of the changes since July 2001 reflect last summer's softening rather than the impacts of the attacks. The forecast for real Gross Domestic Product (GDP) in 2001 has been revised down from \$9.5 trillion in July 2001 to \$9.3 trillion in October 2001.

However, of the \$200 billion decline, only \$40 billion is attributable to the attacks. The impacts of the attacks are more significant in 2002 because they took place late in 2001. Real GDP for 2002 has been revised down from \$9.7 trillion to \$9.5 trillion. The attacks account for just over half (\$116 billion) of this drop. After 2002, the real GDP gap narrows between the pre- and post-attack October forecasts. For example, by 2005 the difference between the two real GDP forecasts is just \$26 billion.

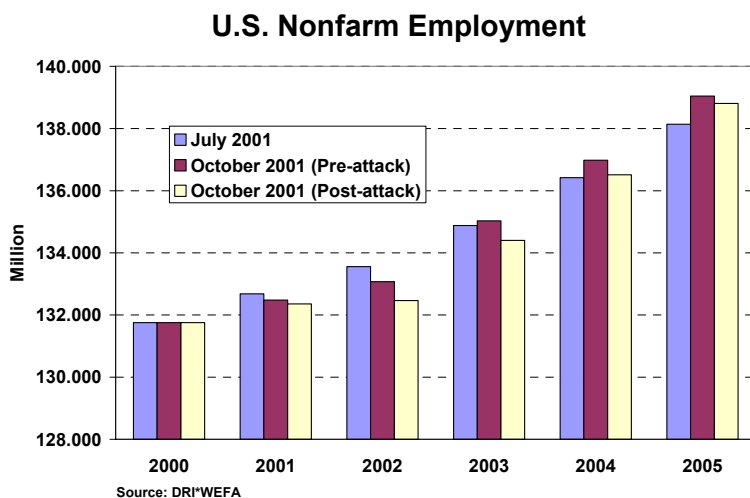
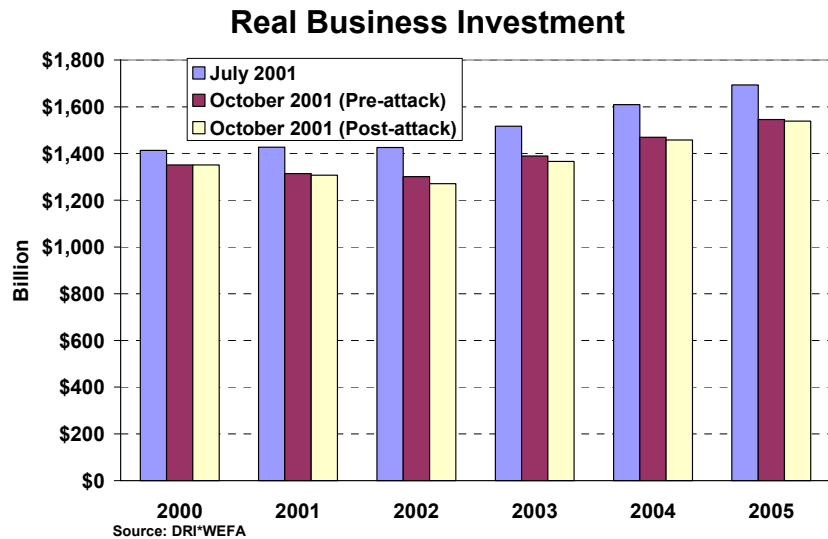


Real consumer spending is the largest single component of GDP, and has recently kept the economy from sliding into a recession. The current outlook for this component of real GDP was lowered compared to July 2001 to reflect the weakening of the consumer sector. Most notably, consumer confidence, after showing remarkable resilience, slid this summer as hiring slowed and the unemployment rate rose. Despite these

deteriorating conditions, real consumer spending in 2001, before the attacks, was revised down just \$22 billion, but this was not enough change to plunge the economy into a recession. It is estimated the attacks caused real consumer spending to drop another \$29 billion, which did push the economy into a recession. As was the case with real GDP, the attacks have their biggest impacts on spending next year. As shown, the attacks will have less of an impact on spending over time.

In the course of a few short years, real business investment has gone from an engine of economic growth to an anchor on the economy. The outlook for this important factor has changed drastically since the attacks. The expectations for 2001 business investment have declined significantly since the July 2001 forecast. However, a close inspection of these projections reveals almost all of this change was made before the attacks. DRI\*WEFA reduced its real business investment forecast for 2001 by nearly \$120 billion

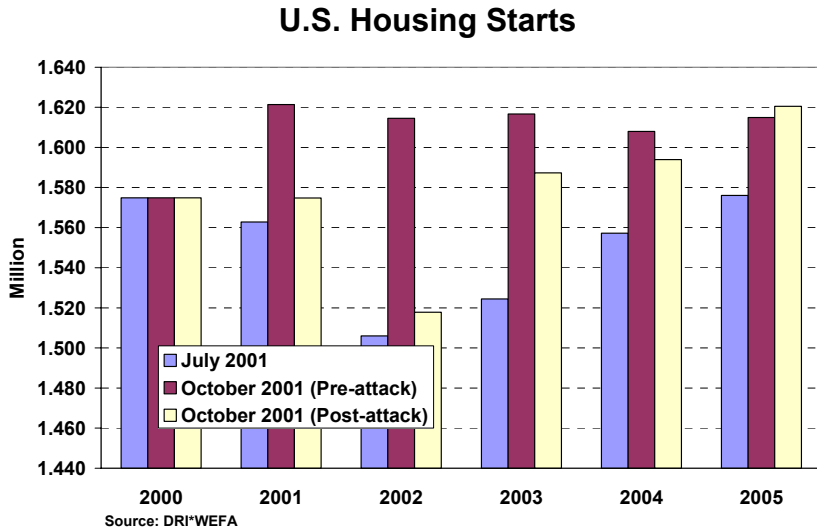
from July to October, but the attacks accounted for just \$6 billion of this drop. The impact increases to \$30 billion in 2002, but this amount is just 20% of the roughly \$150 billion total revision. As is the case with real GDP and real spending, the impacts of the attacks on investment decline after next year.



The terrorists' attacks should exact a heavy toll on employment. Anecdotal evidence for this is found in the rash of layoff announcements soon after the attacks took place. The effects are relatively minor this year, but will be significant next year. National nonfarm employment in 2001 is reduced about 120,000 jobs compared to the pre-attack October 2001 level. The civilian unemployment rate is 0.1 percentage point higher. In 2002, however, the attacks will cost the U.S. an additional 600,000 jobs and the

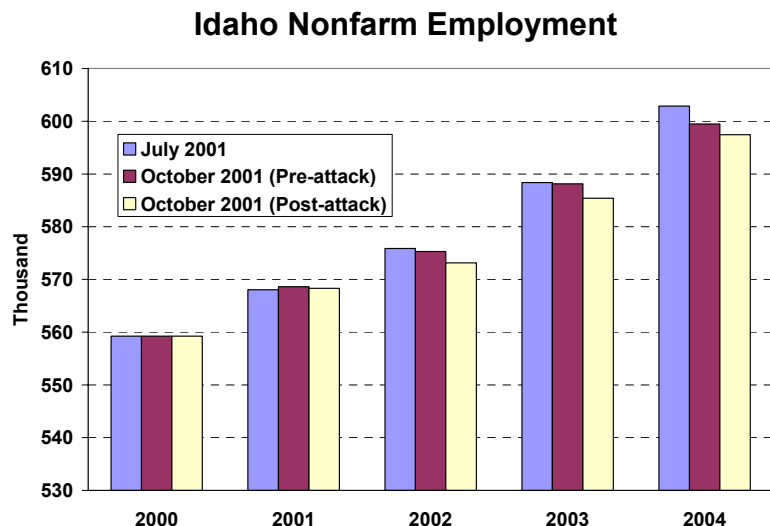
unemployment rate is 0.6 percentage point higher. The pre-attack October 2001 forecast shows 2003 U.S. nonfarm employment actually stronger than had been projected in July. However, in the post-attack October forecast, nonfarm employment takes a year longer to pass its July 2001 counterpart.

So far, all of these measures are lower in the post-attack forecast than in the July 2001 forecast. But this does not hold for all sectors of the economy; housing is a noticeable exception. As the graph shows, U.S. housing starts are actually higher in the post-attack October 2001 forecast than in the July 2001 forecast. However, closer examination of the projection shows the attacks did have a negative impact on housing. DRI\*WEFA had raised its expectations for housing from the July 2001 to pre-attack October forecast. This improvement reflected lower forecasted mortgage interest rates caused by the more aggressive loosening by the Federal Reserve. In the post-attack forecast some of this advantage is lost as the positive effects of lower interest rates on housing are offset by eroding consumer confidence. But even after accounting for the attacks, housing is still stronger than had been forecast in July.

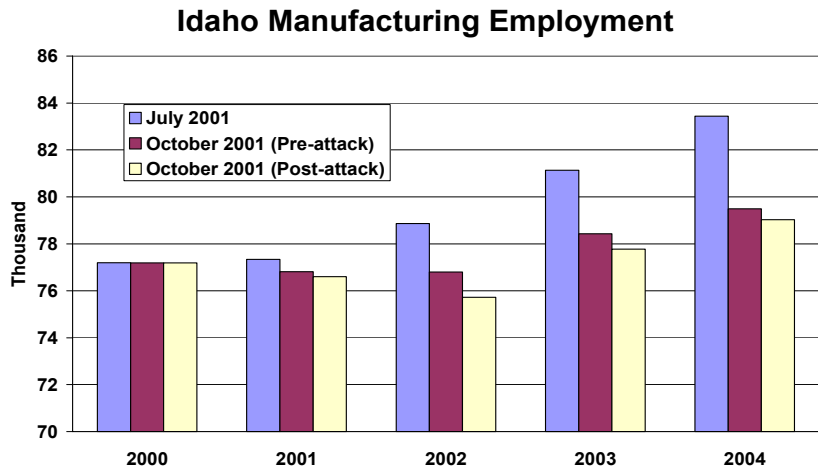


## Idaho Economic Impacts

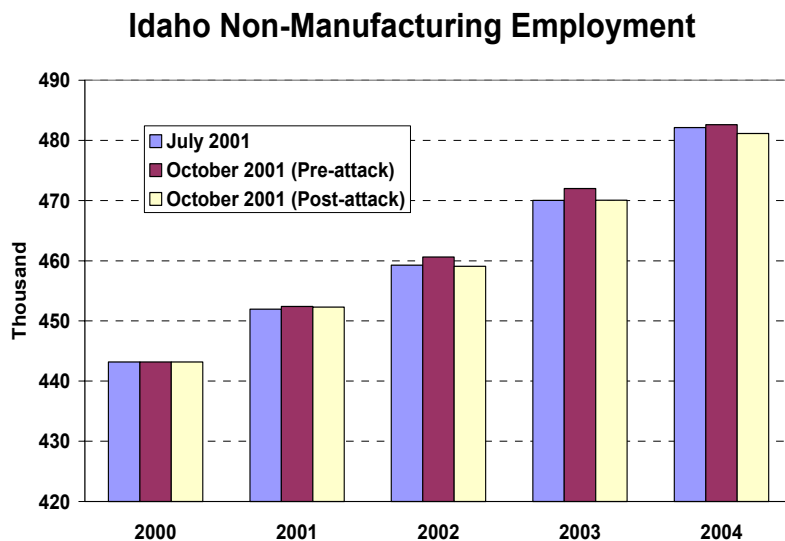
Idaho 2001 nonfarm employment and real personal income forecasts have also been reduced to account for the impacts of the terrorists' attacks. These measures actually improved from the July 2001 to the pre-attack October 2001 forecasts. Idaho nonfarm employment for 2001 in the pre-attack October forecast is 568,627, about 600 more jobs than in the July forecast. The negative impact of the attacks rolls back this advantage to about 300. As was generally the case with the national variables, the impacts of the attacks are most pronounced in 2002. Idaho nonfarm employment is revised down from July's 575,876 to October's 573,128 jobs, with nearly 2,200 of this drop due to the impacts of the attacks. Idaho nonfarm employment is lowered nearly 2,800 jobs in 2003 and about 2,100 jobs in 2004 due to the attacks.



Since Idaho nonfarm employment takes its biggest relative hit in 2002, it makes sense to show how certain employment sectors fare in that year. Last July manufacturing employment was forecast to be 78,864 jobs in 2002. In the post-attack forecast, the Gem State's manufacturing employment is anticipated to be 75,719 jobs in 2002. Of this decrease, about 1,100 are traced to the attacks. Idaho construction is actually 459 jobs higher in the post-attack forecast compared to the July 2001 forecast. Construction employment is the least impacted by the attacks. Its pre-attack and post-attack employment numbers are virtually the same in each year. In 2002, mining employment is 135 jobs higher in the post-attack October forecast than in July's forecast. However, this sector's employment would have been about 150 jobs higher had the attacks not taken place.



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As shown on the graphs, Idaho non-manufacturing employment displays the same pattern as manufacturing employment. Namely, it is stronger in the post-attack October 2001 forecast than in the July 2001 forecast, and it would be even stronger had the attacks not taken place. For example, before the attacks Idaho non-manufacturing employment was expected to be 460,594 jobs in 2002. In the July 2001 forecast it was 459,258 jobs for the same period. After the attacks, Idaho non-manufacturing employment is projected to be 459,061 jobs in 2002.

Idaho real personal income also suffers after the attacks. The attacks are estimated to cause it to be down \$207 million next year, \$166 million in 2003, and \$121 million in 2004 compared to the pre-attack October 2001. The table shown displays all of these factors in more detail.

<b>Idaho Economic Impacts of Attacks</b>				
	<b>Year</b>			
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<i>Idaho Nonfarm Employment</i>	(319)	(2,170)	(2,761)	(2,054)
Manufacturing	(210)	(1,077)	(656)	(464)
Construction	0	(5)	2	(40)
Mining	(15)	(184)	(150)	(82)
Non-Manufacturing	(95)	(1,533)	(1,958)	(1,467)
Trade	(45)	(680)	(814)	(588)
Services	(64)	(981)	(1,173)	(847)
<i>Idaho Real Personal Income</i>	(\$34)	(\$207)	(\$166)	(\$121)

## Conclusion

The analysis of the terrorists' attacks on the U.S. and Idaho economies reveal three general features. First, assuming the change in the forecasts from July 2001 to October 2001 was caused solely by the attacks overstates the impact because the economy was clearly slowing before the attacks occurred. Second, the major impacts of the attacks on the national economy will be felt in 2002, even though the attacks took place in 2001. Had they occurred earlier in the year, 2001 would have experienced a larger impact. Idaho should feel the major employment impacts in 2003. Third, after 2002 the impacts of the attacks begin to dissipate. Indeed, as time passes, the pre-attack October 2001 and post-attack October 2001 economic forecasts virtually converge.